 file 25X1

Central Intelligence Agency

Washington, D.C. 20505

file

DATE 4/17/86

DOC NO EA M 86-20048

OCR 3

P&PD 1

DIRECTORATE OF INTELLIGENCE

15 April 1986

Japanese Help for Small Businesses: Encouraging Exports? [redacted] 25X1

Summary

The Japanese measures enacted in February to help avert the bankruptcy of small firms hurt by yen appreciation were largely an extension and broadening of existing programs. But the government's rapid action reflects the political clout of small and medium-sized firms as well as their economic importance as subcontractors and as employers in certain regions in Japan. The new measures have the potential to allow small firms that are still close to a break-even point at an exchange rate of 180 yen/dollar--such as chemical companies--to maintain export sales. Because the measures are limited in scope, we doubt they will make much difference in sectors such as textiles and leather that have been kept alive in recent years by the yen's weakness. [redacted] 25X1

This memorandum was prepared by [redacted] Office of East Asian Analysis. 25X1
Information available as of 15 April 1986 was used in its preparation. Comments and queries are welcome and may be directed to the Chief, Japan Branch, Northeast Asia, OEA, [redacted] 25X1

EA M 86-20048

[redacted] [redacted] 25X1

25X1

[redacted] 25X1

[redacted] 25X1

Support for Small Firms: The Economic and Political Rationale

Japan, like other industrial nations, promotes the development of small businesses. A 1973 law charges the government with helping small and medium-sized firms--those with less than $500,000 in capital and no more than 300 employees--to rationalize their operations and become more technologically advanced. During the 1980s, Tokyo has tried to reserve almost 40 percent of government contracts for such companies and to provide low-interest loans [redacted] 25X1 25X1

25X1

Tokyo has a strong economic motivation for maintaining the health of small businesses, which provide three-quarters of the jobs in the Japanese manufacturing sector and are the core of such industries as leather. Although small companies account for only 13 percent of Japanese exports directly, they serve as subcontractors for the major firms that dominate Japanese overseas sales. [redacted] 25X1 25X1

Because small firms are an important constituency for the ruling Liberal Democratic Party, Tokyo has found compelling political reasons to bail out firms in trouble. For example, small businessmen--acting through several umbrella organizations--are reported by the media to be an important source of campaign funds for Finance Minister Takeshita, who is one of the front-runners to succeed Prime Minister Nakasone. Small firms also play and important role in Takeshita's home district of Shimane; the health of small high-tech firms contrasts with the prefecture's generally poor overall economic performance. [redacted] 25X1

The New Measures: Different Effects for Different Industries

Given the importance of small and medium-sized firms, MITI was quick to propose measures to help companies hurt by the yen's rapid appreciation. According to press reports, a survey of 138 small firms showed over one-quarter have suffered at least a 60-percent drop in export earnings in the first quarter of 1986, when compared with the previous year. The measures, intended to help firms avoid bankruptcy, were passed in February by the Diet and will remain valid for two years:

- Financial institutions will provide small businesses with an additional $1.5 billion in subsidized loans. Interest rates were lowered from 6.8 to 5.5 percent in February and cut another 0.5 percentage points in mid-April in an effort to keep pace with market rates.

- Funds for credit insurance, which helps small businesses hurt by natural disasters, remain unchanged from the previous year, but Tokyo has reduced the fees for insurance and increased the amount of coverage.

- Tax breaks are slated for some firms to help them regain competitiveness lost with yen appreciation. Small businesses will now be exempt from some real

[redacted] 25X1

Page Denied

[redacted] 25X1

25X1

estate taxes on new facilities and will get additional tax exemptions for research expenses. In addition, the government reinstituted a tax law permitting small firms to write off exchange rate losses stemming from trade financing. [redacted] 25X1
[redacted]

All the measures have the potential to lower costs and to allow companies to maintain exports despite the yen's appreciation. Whether these measures actually will end up doing so, however, will depend largely on conditions within each industry. Some sectors, such as leather and textiles, are so uncompetitive at current exchange rates that the new programs will not help their export performance much. Subcontractors for some major export firms such as automakers will be affected more by the situation of their parent firms than by government measures. [redacted] 25X1

Other industries, such as chemicals and electrical parts, are probably close enough to the break-even point that government subsidies could help them maintain export sales. It is, however, too early to tell if this will occur. We expect government loan funds for these industries to subsidize exports regardless of the official conditions attached. [redacted] 25X1
[redacted] But the firms must compete with many 25X1
others for government funding and are by no means assured a certain share. Moreover, the actual subsidies promised by the new measures appear fairly modest. [redacted] 25X1
[redacted] 25X1
[redacted] 25X1

Outlook

25X1

Notwithstanding foreign criticism of these programs, we believe it highly unlikely that Tokyo will ignore any future pleas of small business for help. [redacted]
[redacted] MITI officials believe the measures will become a permanent part of 25X1
Tokyo's small business policy. If the new programs are kept and the yen weakens again, the importance of these measures to exports may grow. [redacted] 25X1

[redacted] 25X1

[redacted] 25X1

Typescript "Japanese Help for Small Businesses: Encouraging Exports? [redacted]" 25X1

Distribution:

1 - Joseph Massey, Assistant USTR for Asia

Central Intelligence Agency

1 - Office of Legislative Liasion, 7B-14
1 - NIO/EA, 7E-62
1 - NIO/Economics
1 - C/PPS/DO (DO1)
1 - C/EA/[redacted] 5E-18 25X1
1 - OGI/FSIC/PI
1 - OEA/NEA/Korea Branch
1 - OEA/NEA/STI Branch
1 - OEA/NEA Division
1 - OEA/China Division
1 - OEA/SEA Division
1 - D/OEA, 4F-18
1 - C/Production/OEA
1 - FBIS Analysis Group
1 - DDI
1 - Senior Review Panel
1 - PDB Staff, 7F-30
5 - CPAS/IMC/CB, 7G-07
1 - CPAS/ILS, 7F-50
1 - C/PES, 7F-24
1 - NIC/AG, 7E-47
1 - DDO/EA Division
1 - DDO/EA/[redacted] 5C-45 25X1
[redacted] 25X1
1 - OCR/EAD/AB, 1H-18
1 - Chrono
2 - Author
OEA/NEA/J/[redacted]15Apr86 25X1

[redacted] 25X1